

CMBI Credit Commentary

CHJMAO: A standout in the sector

Prefer CHJMAO 6 PERP and CHJMAO 4.25 07/23/29

Security Name	ISIN	o/s amount (USD mn)	Ask Price	YTM/YTC (Ask)	Next Call Date	Coupon Reset
CHJMAO 4.4 03/04/25	XS2451285253	350	98.9	6.7%	-	-
CHJMAO 3.2 04/09/26	XS2208935374	600	92.7	8.1%	-	-
CHJMAO 4 1/4 07/23/29	XS2030348903	500	79.0	9.7%	-	-
CHJMAO 6 PERP	XS2292974065	500	92.1	12.1%	8/2/2026	5yrUST+5.584
CHJMAO 7 1/8 PERP	XS2082952172	400	100.0	6.8%	6/12/2024	5yrUST+5.539

Source: Bloomberg.

China Jinmao (Jinmao) stands out from most of the peers in the Chinese property sector with a substantial rebound of core profit in 1H24, thanks to the considerable cost saving, higher attributable ratio and stable profit margin. Jinmao maintains good access to various funding channels with lower funding costs. Its parent, Sinochem, has been supportive for Jinmao's business developments and funding access. There are cross acceleration clauses between the USD bonds of Jinmao and those of Sinochem. We expect the supports from Sinochem to Jinmao will be forthcoming, if needed. CHJMAOs continue to be our top picks among issues of SOE developers in view of the better risk-return profiles. Within the CHJMAO curve, we prefer CHJMAO 6 PERP and CHJMAO 4.25 07/23/29 given their higher yield and lower cash prices. We expect CHJMAO 6 PERP to be called on the first call date despite no large coupon step-up, taking cues from Jinmao's track records of calling all its perps with coupon reset on the first call dates.

Significant rebound in core profit off the low

	1H23	1H24
Contract sales (RMB bn)	86.0	44.5
Revenue	26,841.3	21,974.9
-Property sales	22,184.3	17,041.4
-Non property sales	4,656.9	4,933.5
Gross profit	4,443.6	3,570.2
Gross interest expenses	3,958.0	3,546.8
Core net profit	401.3	1,099.6
Gross margin	16.6%	16.2%

Source: Bloomberg.

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In 1H24, Jinmao's core profit attributable to the owners of the company increased 174.0% yoy to RMB1.1bn despite 18% decline in revenue. The strong core profit rebound is in line with its positive profit alert announced on 16 Aug'24. The strong profit growth partly reflected Jinmao's strong focuses on higher tier cities and stringent investment criteria on land and project acquisitions, as well as the growing contribution from higher margin non-property development operations. In 1H24, the gross margin of its property developments was flat at 11%. The strong core profit rebound also reflected its progresses in cost cutting. Its SG&A was 28.5% lower yoy to RMB2.3bn and gross interest expenses were 10.4% lower to RMB3.5bn, reflecting its good access to various funding channels. In our view, the higher core profit attributable to the owners of the company also reflected the higher attributable ratios for profit recognized in 1H24.

In 7M24, Jinmao's contract sales were RMB50.2bn down 45.6% yoy. As per Jinmao, it has saleable resources of RMB100bn in 2H24. Assuming a similar sell-through rate in 1H24, we estimate that its FY24 contract sales to be cRMB90bn vs our previous estimates of cRMB100-120bn in FY24. Nonetheless, we take comfort from Jinmao's expectation of higher gross margin of 15-20% for new projects in 1H24 and growing contribution from its higher margin non-property development operations.

Good access to various funding channels

	Jun'23	Dec'23	Jun'24
Cash	42,602.2	37,836.0	38,960.2
ST debts	17,969.4	24,056.6	19,598.3
LT debts	110,843.5	104,437.0	110,954.1
Total debts	128,812.9	128,493.7	130,552.4
Net debts	86,210.7	90,657.7	91,592.1
Net gearing	76.0%	82.5%	78.4%
Cash/ST debts	2.4x	1.6x	2.0x
Adj. liab/assets	68.4%	68.8%	67.9%

Source: Bloomberg.

Jinmao continues to increase the weighting of long-term onshore funding through CMBS and operating loans against its high quality investment properties to lengthen debt maturity and lower funding costs. As of Jun'24, Its offshore debts accounted for c15% of its total debts, down from c29% and 37% of its total debts in Dec'23 and Dec'22, respectively. Jinmao raised 15-year CMBS of RMB3.5bn at a coupon rate of 3.2% and 15-year operating loans of RMB2.9bn at funding costs of 3-3.25%. It also issued 3-year onshore MTNs of RMB3mn and RMB2bn in Jun'24 and Aug'24, respectively at coupon rates of 2.8% for refinancing. Recalled that Jinmao repaid onshore bonds of RMB3bn with a coupon rate of 3.74% in Apr'24. As of Jun'24, Jinmao had cash and cash equivalents of RMB39.0bn, including regulated pre-sales proceeds of cRMB4.8bn, compared with ST debts of RMB19.6bn.

In terms of public bonds maturities, Jinmao's next offshore maturities will be CHJMAO 4.4 03/04/25 (o/s USD350mn) though we expect Jinmao to call CHJMAO 7.125 PERP (o/s USD400mn) on 6 Dec'24, the first call date. The only onshore bond maturing in the rest of 2024 will be the onshore MTN of RMB2bn due Oct'24. We believe that the proceeds of 3-year onshore MTN of RMB2bn issued in Aug'24 will be used to refinance this maturity. The new issue will not only lengthen Jinmao's debt maturity profile, but also lower the funding cost. The funding cost of the new issue is 2.8% compared with 3.65% of the issue maturing in Oct'24.

Visible parental support

On 6 Jun'24, Jinmao raised perpetual of RMB15bn from Sinochem at a coupon rate of 4.35%. Indeed, Sinochem has been providing support on the business developments and funding access of Jinmao over the years. As discussed before, Jinmao's controlling shareholder Sinochem continuously provides support to Jinmao through cRMB20bn shareholder loans. Jinmao is a consolidated subsidiary of Sinochem. There are cross acceleration clauses between the USD bonds of Jinmao and those of Sinochem. We expect the supports from Sinochem to Jinmao to be forthcoming, if needed.

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